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SIPDIS

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SUBJECT: DAS CHRISTENSEN VISITS MONGOLIA; DAYS LATER, NSC
BACKS 10TH ROTATION TO IRAQ

Classified By: Ambassador Mark C. Minton for Reason 1.4 (d).

11. (C) SUMMARY: EAP DAS Christensen, accompanied by the Ambassador, met May 29 with Mongolia's President, Speaker of Parliament, Minister of Industry and Trade, and Vice Defense Minister to discuss Mongolia's role in Iraq and Afghanistan and mining sector developments, among other issues. Christensen underlined U.S. respect for Mongolian participation in the Iraq coalition and called for Mongolia to carry on after the likely pullout of Polish forces from Camp Echo in September. (Note: On June 3, Mongolia's NSC -- the President, Speaker and Prime Minister -- recommended approval of a 10th Mongolian rotation to Iraq. End Note.) The DAS encouraged the Mongolian leadership to continue to contribute to the coalition in Afghanistan; the Vice Defense Minister cited a number of difficulties from funding issues to visa problems to public perceptions. Regarding controversial mining legislation, the Mongolians acknowledged that it is problematic, but said they would seek to safeguard the interests of foreign investors. On Russia-Mongolia relations, the President said the two countries hoped to boost bilateral trade volume to \$1 billion by 2010. The President described his trip to the Boao Forum in China, and the Ambassador provided a readout of his recent meetings in the United States. END SUMMARY.

12. (C) Visiting Deputy Assistant Secretary for East Asian and Pacific Affairs Thomas Christensen and the Ambassador met May 29 with Mongolia's President, Parliamentary Speaker, Minister of Industry and Trade, and Vice Defense Minister to discuss Mongolia's role in Iraq and Afghanistan as well as the development of Mongolia's mining sector, Mongolian energy needs and other key issues. (Note: Five days later, on June 3, Mongolia's NSC -- the President, Speaker and Prime Minister -- recommended approval of a 10th Mongolian rotation to Iraq, at least until the end of September, when Polish forces are expected to withdraw from Camp Echo. This is contingent upon Mongolia reaching a new MOU with whatever forces replace the Poles. End Note.)

U.S. SEES CONTINUED NEED FOR MONGOLIAN PRESENCE IN IRAQ

13. (C) In individual meetings with President Enkhbayar, Speaker Lundeejantsan, Trade and Industry Ministry Narankhuu and Vice Defense Minister Basankhuu (DefMin Bathuyag was in Singapore), DAS Christensen made clear that the U.S. deeply appreciated Mongolia's commitment to the international coalition in Iraq, to which Mongolia has sent nine six-month troop rotations. Noting that no part of the US-Mongolia friendship is stronger than its military-to-military cooperation, Christensen saluted Mongolia's Iraq contributions, saying they demonstrated that Mongolia is not only building a strong democracy at home, but helping others do the same. The President noted that the 9th rotation would return to Mongolia by mid-July and said the NSC would decide on further rotations, taking into account advice from the ministries of Foreign Affairs and Defense. The Speaker said the NSC would take into account "the progress in Iraq and the state of US-Mongolia relations." The Vice DefMin noted that Mongolian forces were serving in Iraq based upon a 2003 MOU signed with Poland, adding that Poland had formally given notice that it will pull its troops out of Camp Echo by mid-September. The Vice DefMin added that this means that "if we're going to stay in Iraq, we're going to have to start over, from the beginning."

AFGHANS REQUIRE FURTHER ASSISTANCE...

14. (C) Regarding Afghanistan, where eight Mongolian rotations have trained as many as 2,000 Afghan soldiers in how to operate Russian-made, 122-mm towed howitzers, DAS Christensen

expressed U.S. gratitude for Mongolia's contributions, both on a practical and symbolic level. (Note: Mongolia's Mobile Training Team, or MTT, finished its training mission and departed from Afghanistan in May. The GOM has not indicated whether it will dispatch another rotation. End Note.) He said the U.S. understood the difficulties and challenges that Mongolia faced in Afghanistan, and noted that Mongolian participation in the Afghan coalition had promoted US-Mongolia ties and promoted peace and security in Asia. Christensen urged the GOM to continue to play a role in Afghanistan, adding that if the Coalition's efforts succeed, as he believed they would, Afghans would long remember Mongolia's contribution. The President said he was gratified that Mongolian's 21-person MTTs had been successful in Afghanistan. He also said Mongolia "wants (U.S.) support to develop further," adding that Mongolia will do its best "to be a good partner." The Speaker did not offer a substantive reply.

... BUT OBSTACLES THREATEN RE-ENGAGEMENT

15. (C) The Vice Defense Minister cited a number of difficulties that Mongolia had faced in Afghanistan, from funding issues to visa problems to public perceptions. Basankhuu noted that the Afghan Government had refused a visa to Mongolia's Chief of the General Staff, who had wished to travel to Afghanistan to visit his troops. The Vice DefMin said the Afghan Government frequently misunderstood Mongolia's role in Afghanistan, leading some in Mongolia to conclude that the Mongolian presence there was not appreciated. He noted that the GOM is paying all allowances to MTT members, and that these allowances are far lower than those received by Mongolian peacekeepers in Sierra Leone, who are paid by the UN. He noted that Mongolian regulations require voluntary enlistment for Afghan service, adding that fewer Mongolian servicemen were choosing the MTT. Meanwhile, he said, the Ministry of Defense (MOD) was struggling to cope with rising prices and inflation. The GOM's leadership, he said, had instructed the MOD, like all ministries, to trim its budget by 20 percent. Basankhuu said it cost between \$180,000 and \$200,000 to send an MTT to Afghanistan (and about \$800,000 to send the Iraq contingent). Complicating matters, he said, was the fact that with Parliamentary elections scheduled for June 29, many GOM leaders were focused on re-election and largely unavailable to focus on

Afghanistan.

MINING LEGISLATION AN ISSUE OF CONCERN

16. (C) During DAS Christensen's four separate meetings with senior GOM officials, he also discussed controversial mining legislation. (Note: Rather than close the current session of Parliament, as expected, the Speaker on June 2 announced that the 76-seat Parliament was in recess, indicating that it would reconvene following the June 29 elections. This would give outbound MPs an opportunity to pass mining-related legislation before the new Parliament is seated in late July.

End Note.) DAS Christensen said the U.S. is optimistic about Mongolia's economic future but noted one issue of concern: mining legislation. He said the U.S. hoped Mongolia would avoid adopting legislation that could dissuade foreign investors from participating in Mongolia's mining sector. Christensen called on Mongolia to make choices that allow for the largest number of foreign players. He said it was important for Mongolia to have multiple markets, so that no one or two actors would be able to dominate Mongolia's economy. The President acknowledged that the mining legislation was problematic and said some Mongolians "seek an easy solution (to economic challenges) through mining." He said that among "politicians and some so-called NGOs, this is an easy and trendy idea." He added that any law would need

to make clear the GOM's share of any strategic mining project. At present, he said, those who back the controversial legislation "want investors to run all the risk." He said that some creative solutions were possible that could protect Mongolian long-term interests without excessively alienating investors who did not want to run risks without having effective control over their companies. One such concept might be the turnover of mining companies to Mongolian control after many years (perhaps 30-50 years).

ROLE OF CHINESE AND RUSSIAN MINING FIRMS

17. (C) Trade and Industry Minister Narankhuu agreed with DAS Christensen that US-Mongolia trade and commercial ties should be deepened, and that the mining sector provided an excellent opportunity to do so. However, Narankhuu said that if Mongolia were to establish a truly level playing field in the mining sector, Russian and Chinese firms, mostly state-run ones with little inclination to respect Mongolian laws, would flood in. Given Mongolia's current regulatory and legislative weaknesses, he said, Mongolia would be better off implementing a strict regime that imposes greater state involvement in large-scale projects. DAS Christensen replied that if the GOM were to adopt overly stringent, business-unfriendly policies in a bid to keep certain players out of the mining sector, western mining firms would be alienated, possibly leaving Mongolia no option but to turn to Chinese and Russian mining companies.

SPEAKER: ALASKA FUND OFFICIALS TO ADVISE MONGOLIA

18. (C) The Speaker said officials of the Alaska Fund were going to offer Mongolia advice and unspecified assistance. He said the mining legislation was complicated and promised that despite pressure from civil society, Parliament would pass a law that meets international standards and creates a favorable climate for foreign investors. Lundeejantsan said that he, the President and Prime Minister Bayar were all in agreement on the mining issue, but that differences remained on some Parliamentary working groups, and between (and within) some political parties. He said the GOM had received a letter from U.S. Members of Congress on this issue, and that it would be taken into account. The Speaker said Parliament did not want to lose any more time before passing key mining legislation, but that it did not want to make a mistake or drive away investors.

RUSSIAN RELATIONS AND FUEL

¶9. (C) On Russia-Mongolia relations, the President informed DAS Christensen and the Ambassador that the Russian and Mongolian leadership had been discussing a broad range of issues, particularly those related to economic cooperation. By 2010, he said, the two countries have targeted trade volume of \$1 billion (up from \$750 million at present). (Note: The GOM has invited President Medvedev to visit Mongolia next year. No date for the visit has been set. End Note.) The President, who visited Russia after attending 60th anniversary ceremonies in Israel, noted that Russia, which sells Mongolia virtually all of its oil, had noted that Russia "couldn't keep fuel prices low forever." Thus, he said, Russian oil giant Rosneft proposed its deal (of keeping gas prices low - the same price as in Russia - in exchange for GOM permission to set up 100 Rosneft gas stations in Mongolia). Enkhbayar observed that Parliament had discussed this matter but failed to make a decision. The President added that Mongolia needed to find alternative sources of fuel, possibly from Kazakhstan or the Gulf States. He noted that tiny amounts of crude oil were pumped out of eastern Mongolia, but that refinery capacity did not exist

domestically. He also said Mongolia was interested in exploring options for extracting liquid fuel from coal, a resource Mongolia has in abundance. The DAS mentioned that Treasury, under Secretary Paulson's leadership, were thinking of some innovative contributions that Mongolia might make to the future development of clean energy in East Asia. The Ambassador noted that this idea was gaining currency.

PRESIDENT ON BOAO FORUM

¶10. (C) The President, who had attended the April 11-13 Boao Forum in China, said his efforts there to engage Chinese leaders on economic cooperation resulted in their expressed willingness to provide \$300 million in soft loans to Mongolia. (Note: This is a long-standing offer negotiated no less than four times in five years. End Note.) He said the GOM was looking into what this loan would serve, and how it would be structured. It was possible, he said, that half would be used by the GOM and the other half by businesses. He added that the Chinese leadership did not mention the Dalai Lama at the Boao meetings, which had followed a spasm of violence in Tibet. He expressed concern that China might buy third nation's private energy and mining firms investing in Mongolia and offered one example of a company whose owner had promised him personally that he would not sell out to Chinese firm after the company invested in Mongolia, but it seems he backed out on his promise, leaving Mongolia in a difficult position.

AMBASSADOR ON CONSULTATIONS

¶11. (C) The Ambassador briefed the President, Speaker, Trade and Industry Minister and Vice DefMin on his recent consultations in the United States. The Ambassador noted his recent visits to Denver, where he met with a number of people involved in the bilateral relationship, and to the University of Western Washington, which has a Mongolia program, and where he and senior officials of that institution discussed educational exchanges and business training. The Ambassador also described a business forum he attended at the Department of Commerce, and noted that Peace Corps was looking to expand its presence in Mongolia. The Ambassador noted that 66 new Peace Corps volunteers were expected to arrive shortly in Mongolia. (Note: One last-minute cancellation meant that 65 PCVs have since arrived in Mongolia. End Note.)

¶12. (U) Deputy Assistant Secretary Christensen approved this cable.
MINTON